

Dish, FirstNet, tower companies and FCC are the early winners in wildly successful AWS-3 auction

Fierce Wireless By Mike Dano

November 20, 2014

The FCC's AWS-3 auction, which is still going on, is now more successful than anyone ever dreamed.

Before the start of the auction, TMF Associate analyst Tim Farrar predicted the event could raise a total of up to \$14 billion. BTIG analyst Walter Piecyk predicted up to \$16 billion. And New Street Research analyst Spencer Kurn forecast up to \$22 billion.

But as of this morning, the auction has raised a total of more than \$24 billion in provisionally winning bids after just six days of bidding. And while there are some indications that activity in the AWS-3 auction is now slowing, some believe the AWS-3 auction could last up to five more weeks. "This auction, while now difficult to predict, is still far from over," Piecyk said in a note to investors last night.

Already, the AWS-3 auction is the FCC's most successful auction ever. It has surpassed the \$13.7 billion raised during the AWS-1 auction in 2006, and the \$18.9 billion raised during the 700 MHz auction in 2008.

The total amount of money generated by the FCC's AWS-3 auction could surpass \$30 billion. Or maybe \$35 billion. No one knows for sure.

But why is this year's auction so much more successful than previous ones? After all, the paired spectrum licenses up for grabs in AWS-3 sit between 1755-1780 MHz and 2155-2180 MHz and therefore do not have the superior propagation and in-building penetration characteristics of, say, 700 MHz spectrum.

The reason the AWS-3 auction has been so successful can be summed in one word: Smartphones. The FCC's last big auction was held in 2008--the year after the iPhone was first released. And [if you remember](#), Apple only sold a few million iPhones in 2008. It wasn't until

several years later that smartphones truly exploded into the U.S. market. Today, [almost three out of every four Americans](#) now owns a smartphone.

And what are people doing with their smartphones? To a large extent, they're downloading data via LTE networks. [According to new numbers from Mobidia](#), U.S. subscribers consumed an average of 1.8 GB of cellular data every month during the third quarter.

And that's why the AWS-3 auction has been so wildly successful: Wireless carriers like AT&T Mobility ([NYSE: T](#)) and Verizon Wireless ([NYSE: VZ](#)) want to continue providing high-speed services to smartphones and other devices, and it appears they are willing to pay almost anything for the spectrum they need to continue to do that.

But beyond the big, round numbers, what other conclusions can we draw from the AWS-3 results so far?

FirstNet: Based on rules from Congress, the first thing the FCC has to do with its AWS-3 auction proceeds is fund the First Responder Network Authority (FirstNet). FirstNet has been tasked with building a nationwide, interoperable LTE broadband network for first responders. That means police, firefighters and other emergency workers will get their own nationwide LTE network that they can use to more easily communicate with each other. Funding FirstNet is a big step forward for public-safety officials who have been asking for interoperable high-speed communications since the terrorist attacks of Sept. 11, 2001, revealed major communications problems among New York's first responders.

FCC: Tom Wheeler, the FCC's chairman, has been under fire for months due to the ongoing debate over net neutrality. With what appears to be a massively successful AWS-3 auction, Wheeler now has a feather in his cap after a little more than a year in his position.

TV broadcasters: The FCC has been working to convince TV broadcasters to participate in the upcoming 600 MHz incentive auction, currently scheduled for 2016. Based on the massive bids being made in the AWS-3 auction, the FCC can likely tell broadcasters that they stand to make a substantial profit by giving up their spectrum in the incentive auction. After all, low-band spectrum like 600 MHz is even more valuable than mid-band AWS-3 spectrum.

Dish: If there's one clear winner in the AWS-3 auction so far, it's Dish Network and its chairman Charlie Ergen. Indeed, at the close of trading yesterday, Dish's stock was up 10 percent. That's because Dish owns more than 50 MHz of spectrum, including 40 MHz in the AWS-4 band that is adjacent to the AWS-3 band. If carriers like AT&T and Verizon are so intent on purchasing AWS-3 spectrum in the auction, that means Dish's spectrum is more valuable than some initially believed. Even if Dish doesn't win much spectrum during the AWS-3 auction, the company will still emerge a winner based on its current spectrum holdings.

However, Ergen likely isn't making any friends if he's bidding up the price of AWS-3 spectrum in order to make AT&T, Verizon and others pay more.

T-Mobile: Although T-Mobile US ([NYSE:TMUS](#)) [announced in September](#) it would raise new debt in order to fund spectrum purchases, the carrier remains far more strapped for cash than its larger rivals AT&T and Verizon. And while T-Mobile is likely purchasing smaller chunks of spectrum to augment its network in specific locations, the big chunks of spectrum in major metro markets like New York City and Los Angeles may now be beyond T-Mobile's reach.

"If T-Mo is shut out of the current auction, either by its own choice or by aggressive VZ and T bidding, we believe that it will have to ratchet back on subscriber growth in 2015 and beyond," wrote Kevin Smithen at Macquarie Capital in a note to investors yesterday.

If T-Mobile and Dish are largely outbid by AT&T and Verizon in the AWS-3 auction, the chances that Dish and T-Mobile will merge--or at least team up on spectrum--are that much better.

Tower companies: "The high values that carriers are willing to spend on spectrum is indicative of their need for capacity, which is positive for the towers," wrote New Street Research analysts in an investor note yesterday. "We expect AWS-3 deployments to drive significant amendment activity from 2016-2018. ... We continue to recommend the towers because the market is underestimating organic growth over the next five years and we prefer to play the towers through SBAC and AMT."

AT&T and Verizon: Although the identity of AWS-3 auction bidders will remain secret until the

auction is finished, there's no doubt about which companies are putting up the most money. AT&T and Verizon, far and away the nation's largest wireless operators, are likely the ones that will win the bulk of the spectrum licenses up for grabs in the AWS-3 auction. But the astronomical prices they appear willing to pay for AWS-3 licenses probably will spark concern among investors; both companies' stocks fell slightly in trading yesterday.

But if AT&T and Verizon want to continue to connect smartphones and other devices to their respective wireless networks, the AWS-3 auction is really their only chance in the near future to bulk up their spectrum portfolios. After all, the FCC delayed until 2016 its next major spectrum auction, the 600 MHz incentive auction. And before they can recoup their investments in their AWS-3 licenses, AT&T and Verizon will first have to build out AWS-3 networks and seed the market with AWS-3 capable phones--a process that will likely take years.

Sprint: Sprint ([NYSE: S](#)) decided to sit out the AWS-3 auction, likely because the company already has vast troves of 2.5 GHz spectrum that it is building out. And based on the rising prices for AWS-3 licenses, some see Sprint's decision as a wise move. "We believe that the robust auction prices also validates our view that Sprint's superior spectrum position relative to the other Big 4 carriers is not currently reflected in its share price," Smithen at Macquarie Capital wrote, adding the firm now values Sprint's total spectrum portfolio between \$31.5 billion to \$49.9 billion.

[Link to Article](#)

[Link to Fierce News Articles](#)